

Leveraging Technology to Intelligently Manage FX Hedging Programs – Fact or Fiction?



Emily Howard, Treasury Risk Manager @Red Hat Says: Fact.

Company Info

Founded
1993

Corporate Headquarters
Raleigh, North Carolina, USA

Countries Operational
35 Worldwide

2016 Net Sales
2B+

Currency Exposure
High

About Red Hat

Red Hat is the world's leading provider of open source software solutions, using a community-powered approach to provide reliable and high-performing cloud, Linux, middleware, storage and virtualization technologies. Red Hat also offers award-winning support, training, and consulting services. As the connective hub in a global network of enterprises, partners, and open source communities, Red Hat helps create relevant, innovative technologies that liberate resources for growth and prepare customers for the future of IT.



“I’m a one-person show. I’m solely responsible for Red Hat’s hedging program. It was all on me – the pressure of having to look at the numbers and explain how we got there. Aside from how great their actual product is, I look at Atlas as an extension of my team.”

“We just closed our second quarter and my FX gain/loss was the lowest it has been in 7 quarters! The effectiveness of AtlasFX has been huge and it is visible in our numbers.”

Situation Summary

For global companies such as Red Hat, an effective FX hedging strategy is the critical safeguard against FX volatility and exposures.

At the same time, it is often very difficult to not only implement a program but to continuously manage and improve upon an FX hedging program. Black-box, locked down ERPs, manual analytics on spreadsheets, dependency on disparate data sources and lack of cross-departmental visibility are just a few of the factors making this a seemingly impossible challenge.

Many treasury and risk teams feel that managing FX currency volatility through hedging can be almost like driving blind. Like most other business functions, technology can be a savior. Technology can provide the capabilities needed to help access the data in their ERPs, identify and analyze exposures, and continually manage the performance of the hedging program. But does such technology really exist? And if they do, how far can these solutions really go?

Recently, Emily Howard, Treasury Risk Manager at Red Hat was faced with similar challenges. Starting when the treasury team implemented their first hedging program back in 2008, Emily has lived through the many phases and challenges of an effective FX program. From manual hedging to technology solution implementation through new phases of continuous improvement, the veteran risk manager has been through it all. In her recent discussion with AtlasFX, Emily shares her journey and provides pragmatic advice to other treasury and risk managers.

Q&A with Emily Howard

What were the main factors driving Red Hat towards the adoption of AtlasFX to manage their FX hedging program?

Being international means we have exposure to a lot of different currencies. When we first started our hedging program back in 2008, it was very difficult to manage the program effectively. At the time, our ERP system had extremely limited reporting capabilities which made it virtually impossible to identify where we were exposed. We spent hours each month just trying to pull different reports and it was always a needle in a haystack to not only understand where the exposures were but also what caused them. An exposure could have easily been created from a manual journal entry error. We had no visibility and no way of knowing.

We needed a system that could talk to our ERP system and help us identify the exposures that we had. By being able to do this, we could try to address those exposures either through a hedging program or by moving funds to clean up those exposures where they no longer existed on our books. We also needed a solution that would take us beyond that visibility into our exposures and provide us with the analytical insight to intelligently advance our program which is what led us to explore AtlasFX.

What was the tipping point that drove Red Hat to advance their program and technology?

When we first implemented our strategy, the pain was all around the data – accessing the data and making sure we could manipulate and compile it without minimizing its accuracy so that we could have a clear view of our FX exposures.

We originally leveraged technology that only brought us half way. The entire analytical piece of the puzzle was missing. Now with AtlasFX, we get to see the full picture. Not only can we easily see where all of our exposures are, but we can make the right decisions and know EXACTLY where all of our FX gains and losses are coming from.”

✓ Benefits by the Numbers

- + \$2.2M – Amount of FX gains/loss with \$523M in revenue PRIOR to implementing a solution
- + \$200K – Amount of P&L impact of FX with \$2.1BN in revenue AFTER implementing a solution
- + 38% - Efficiency gained by being able to reduce amount of trades from 200+ per month to 75 per month

The second part was all about being able to take action on it. After some time with our previous technology we started realizing that the data access and seeing the exposures just wasn't enough. We would be able to make decisions based on where our solution was showing us the exposures. However, when we got around to month-end, we would waste enormous amounts of time trying to analyze whether or not what we did was effective.

At Red Hat, we have a short month- end process. Our lack of analytical capability around the effectiveness of our FX hedges was making it difficult to accurately and efficiently close our books within the short month-end timeframe.

As a result, there was a combination of two factors that really prompted the tipping point for us in terms of our current state of technology adoption. The first was around where we eventually wanted to go with the hedging strategy – we wanted to make it more analytical and proactive. We couldn't do this if we were wasting days per month trying to manually analyze our results. Secondly, we were starting to put more focus on the scalability of the technology we were using in order to really ramp up and keep pace with our long-term vision for the strategy.

What characteristics did you look for in a solution provider? How did AtlasFX stack up?

When we decided to upgrade from our previous solution provider, we wanted to make sure that our new partner would be able to not only provide us with the same level of data and exposure visibility that we currently had but that they would be able to provide us with advanced capabilities that would give us the entire picture.

Performance analytics was extremely important to us. Advanced and automated analytics were critical so that we could reclaim those month end hours and know exactly which action and which hedge, yielded which results.

With the volume and complexity of our program, we need to be able to analyze what we did and whether or not it was effective. If it was not effective, I need to have the capabilities to understand why it wasn't and vice versa. AtlasFX does this for us and they do it very well.

I'm confident that no matter how much our program matures, AtlasFX will be able to scale with us both from the domain expertise perspective and a technical capability perspective. We need a partner that is going to be with us for the long haul and I would say that is one of the key strengths and differentiators of AtlasFX. For me, the product is awesome but it's the guidance and consultations that provide the most value to us. The team really works with us to help us achieve our current goals while enabling us to continually improve.

How has the implementation and adoption process been?

AtlasFX was great in terms of helping us prioritize our implementation in a way in that minimized or even eliminated any potential switching pain. It was a migration situation for us so we took the route of really focusing on apples to apples. The first stage was getting us to the point of where we were with our previous solution – being able to access the data in our ERP and having visibility into where we had FX exposures.

This was the first stage and Atlas got us there really fast. It took less than a month. The next phase that was also very quick was being able to tell us what action we needed to take. The third stage was setting up the analytical capabilities. This was the longest phase of the project because these performance capabilities are so customizable to your company. The customization of the performance analytics is invaluable.

Stages of FX Hedge Strategy:

1. Accessing data
2. Identifying your exposures
3. Analyzing the results
4. Proactively making intelligence-based decisions
5. Internal collaboration and communication
6. Continuous improvement

What's really key about the AtlasFX solution is that it is not a blanket offering. The implementation team has worked really hard to understand exactly what Red Hat does and they have stripped it down and analyzed it and have helped us come up with the right configuration of the solution. The experience of it all has been extremely positive because the AtlasFX team is with us the entire way.

In addition to the technical component of the implementation, we have had to make process changes to help mature our strategy. The domain expertise amongst the AtlasFX team is invaluable and incomparable. The team has really been amazing. They are available and ready to speak to anybody I need them to in order to explain the reasoning behind the processes as well as the steps required to implement the change. They are a supportive and committed partner.

What does the future look like for Red Hat with AtlasFX?

The future is exciting. Working with the AtlasFX team, we have built a roadmap based on where we are going with our FX strategy. From a technology capability perspective, there is so much that the system can do that we have not started utilizing yet. So this is definitely a plus for us because we needed a solution to scale as we expand our strategy. In addition to the functional capabilities, AtlasFX helps me from a process and theoretical perspective. Right now we only do balance sheet hedging but there's cashflow hedging that we are looking to do as well. I know that when we are ready the Atlas team will give me guidance on that part too.

What advice would you give to other treasury and risk managers looking to improve their FX hedging programs with technology?

To companies looking to either implement an FX hedging strategy for the first time or to take their strategies to the next level of maturity, I highly suggest that they look for a partner who are very clear on their commitment to the client.

For me and the team at Red Hat, it is important that the relationship is a partnership from the beginning. Regardless of your level of FX strategy maturity, it is vital that you are open to what your program can be. Accept the new technology available to make your current situation a more optimized environment but also make sure that your provider can help you to develop and deliver on best practices over time.

Atlas Risk Advisory is a risk management advisory firm that provides foreign exchange risk management solutions for emerging and established multinational corporations.

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38 Keyes Ave Suite 200, The Presidio San Francisco, CA 94129
www.atlasfx.com | info@atlasfx.com

